

CITY OF WASHINGTON, IOWA
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

CITY OF WASHINGTON, IOWA
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CITY OF WASHINGTON, IOWA
OFFICIALS
June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sandra Johnson	Mayor	January, 2014
Bob Shepherd	Council Member	January, 2014
Russ Zieglowsky	Council Member	January, 2014
Bob Shellmyer	Council Member	January, 2016
Fred Stark	Council Member	January, 2014
Mark Kendall	Council Member	January, 2016
Merle Hagie	Council Member	January, 2014
Brent Hinson	City Administrator	Indefinite
Illa Earnest	City Clerk	Indefinite
Joe Myers	City Accountant	Indefinite
Craig Arbuckle	City Attorney	Indefinite

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Washington, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Washington's Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

To the Honorable Mayor and
Members of the City Council

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Washington, Iowa, as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Supplementary and Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of Washington's basic financial statements. The financial statements for the nine years ended June 30, 2012 (none of which are presented herein), were audited by other auditors whose report expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements.

The supplementary information included in page 1 and pages 27 through 31, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 5e and 25 through 26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the Honorable Mayor and
Members of the City Council

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 6, 2014 on our consideration of the City of Washington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

GmeWdl, Ben, Kyhan & Co, P.C.

Atlantic, Iowa
January 6, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Washington provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 7.27%, or approximately \$603,000, from fiscal year 2012 to fiscal year 2013. Property tax increased approximately \$269,000 while Tax increment financing and Capital Grants, contributions and restricted interest decreased approximately \$284,000 and \$1,445,000 respectively.
- Disbursements of the City's governmental activities decreased .6%, or approximately \$45,500, in fiscal year 2013 from fiscal year 2012.
- The City's total cash basis net position increased 25%, or approximately \$1,546,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$856,000 and the cash basis net position of the business type activities increased approximately \$690,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

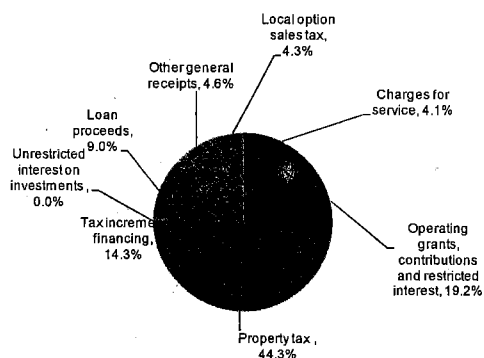
Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

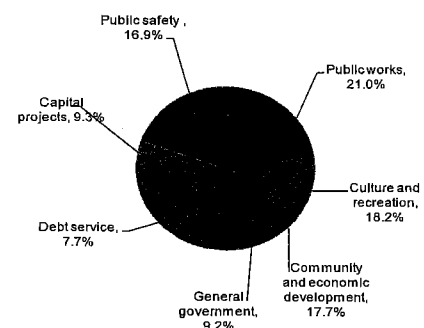
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from approximately \$4.322 million to approximately \$5.178 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 961,863	\$ 956,190
Operating grants, contributions and restricted interest	1,006,905	942,418
Capital grants, contributions and restricted interest	321,746	1,766,853
General receipts:		
Property tax	3,124,969	2,855,973
Tax increment financing	128,147	412,169
Local option sales tax	720,777	703,239
Unrestricted interest on investments	1,761	3,094
Bond proceeds	762,594	--
Other general receipts	666,012	657,981
Total receipts	<u>7,694,774</u>	<u>8,297,917</u>
Disbursements:		
Public safety	1,660,239	1,635,509
Public works	1,073,896	1,418,092
Culture and recreation	855,510	833,069
Community and economic development	264,215	66,250
General government	764,518	978,299
Debt service	1,589,854	1,021,522
Capital projects	1,350,909	1,651,932
Total disbursements	<u>7,559,141</u>	<u>7,604,673</u>
Change in cash basis net position before transfers	135,633	693,244
Transfers net	<u>720,074</u>	<u>105,488</u>
Change in cash basis net position	855,707	798,732
Cash basis net position, beginning of year	<u>4,322,523</u>	<u>3,336,706</u>
Cash basis net position, end of year	<u>\$ 5,178,230</u>	4,135,438
Adjustment for Library Foundation cash basis net position		<u>187,085</u>
Cash basis net position after adjustment		<u>\$ 4,322,523</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 7.27%, or approximately \$603,000. The total cost of all programs and services decreased approximately \$45,500, or .6%, with no new programs added this year. The significant decrease in receipts was primarily due to the City receiving Capital Grant money in fiscal year 2012 that was not received in fiscal year 2013 because the Waste Water Treatment Plant and West Side Sewer projects were completed in fiscal year 2012.

The cost of all governmental activities this year was approximately \$7.559 million compared to approximately \$7.604 million last year. However, as shown in the Statement of Activities and Net Position on pages 6-7, the amount taxpayers ultimately financed for these activities was approximately \$5.269 million because some of the cost was paid by those directly benefited from the programs (approximately \$962,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1.329 million). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2013 from approximately \$3,665,461 to approximately \$2,290,514, principally due to receiving grant proceeds in fiscal year 2012 for the Waste Water Treatment Plant and the West Side Sewer project.

Changes in Cash Basis Net Position of Business Type Activities		
	June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,510,529	\$ 1,156,386
Sewer	2,002,665	2,163,882
Sanitation charges	321,880	314,522
Capital grants, contributions and restricted interest	--	1,836,642
General receipts:		
Bond proceeds	1,992,682	14,415,963
Other miscellaneous receipts	1,157	102,718
Total receipts	<u>5,828,913</u>	<u>19,990,113</u>
Disbursements:		
Water	1,154,290	998,534
Sewer	2,961,198	16,861,334
Sanitation	303,530	286,722
Total disbursements	<u>4,419,018</u>	<u>18,146,590</u>
Change in cash basis net position before transfer	1,409,895	1,843,523
Transfers, net	<u>(720,074)</u>	<u>(105,488)</u>
Change in cash basis net position	689,821	1,738,035
Cash basis net position beginning of year	<u>1,813,329</u>	<u>75,294</u>
Cash basis net position end of year	<u>\$ 2,503,150</u>	<u>\$ 1,813,329</u>

Total business type activities receipts for the fiscal year were approximately \$5.829 million compared to approximately \$19.990 million last year. This significant decrease was due primarily to the receipt of \$14.4 million of sewer construction general obligation bond proceeds and \$1.8 million of capital grants in fiscal year 2012 that were not received in fiscal year 2013. The cash balance increased approximately \$690,000 from the prior year because most of the cost for the sewer plant was expended in fiscal year 2012. Total disbursements for the fiscal year decreased 76% to approximately \$4.419 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$5,138,958, an increase of approximately \$833,000 above last year's total of \$4,306,056. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance increased \$329,756 from the prior year to \$601,243.
- The Special Revenue, Road Use Tax Fund cash balance increased \$140,680 to \$757,913 during the fiscal year. This increase is attributable to transfers into the Road Use Tax Fund from Employee Benefits Fund, Street Lighting, and the Capital Projects Fund.
- The Special Revenue, Capital Projects Fund cash balance increased by \$358,181 to \$2,985,757, chiefly due to the issue of \$250,000 General Obligation Bonds and the receipt of \$88,517 Iowa Department of Transportation Reimbursement for 2010 street paving project.
- The Debt Service Fund cash balance increased \$2,795 from a zero balance for fiscal year 2012.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$352,769 to \$647,743, due primarily to an increase in the sale of water and rates from the prior year
- The Enterprise, Sewer Fund cash balance increased \$308,328 to \$1,789,913, due primarily to the increase in rates and prepping for full principal payments on the Waste Water Treatment Plant State Revolving Fund Loan.
- The Enterprise, Sanitation Fund cash balance increased \$18,350 to \$52,866.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 15, 2013 and resulted in an increase in budgeted revenues of \$289,445 and an increase in operating disbursements of \$571,858 for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$45,001 more than budgeted.

Total disbursements were \$5,719,641 less than the amended budget. This was primarily due to City not expending funds for Capital Projects including the Airport Runway Extension and the Water Tower project.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$22,211,239 of bonds and other long-term debt outstanding, compared to \$20,250,963 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2013	2012
General obligation bonds	\$ 5,315,000	\$ 5,650,000
Revenue bonds	16,760,239	14,415,963
Urban renewal tax increment financing	136,000	185,000
Total	<u>\$ 22,211,239</u>	<u>\$ 20,250,963</u>

Debt increased as a result of issuing general obligation bonds for a street and airport reconstruction projects and redemption of \$1.9 million of sewer revenue bonds.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and urban renewal tax increment financing of \$5,451,000 is below the City's \$17.2 million legal debt limit. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2014 fiscal year budget, tax rates, and fees that will be charged for various City activities. Those factors may include the economy, employment rates, operating expenses, capital projects and increases in service and state mandates.

For fiscal year 2014, the City of Washington has projected and budgeted the following major projects; West Tyler Street Reconstruction approximately \$275,000, Airport Crosswind Runway Relocation approximately \$3,700,000, Water Ground Storage Replacement \$1,382,000, Southwest Industrial Park Phase 1 approximately \$750,000. Other projects include the Country Club Road Widening, Municipal Building/Old Library study, and the East Madison Mill & Overlay.

The City Council passed an ordinance to increase water, sewer and sanitation rates by 3.50% effective the first day of July each year beginning in 2013, unless amended by resolution.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brent Hinson, City Administrator, City of Washington, 215 East Washington Street, Washington, Iowa 52353.

CITY OF WASHINGTON, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

As of and for the year ended June 30, 2013

		<u>Program Receipts</u>	
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>
Functions/Programs:			
Governmental activities:			
Public safety	\$ 1,660,239	\$ 16,950	\$ 91,430
Public works	1,073,896	416,454	697,100
Culture and recreation	855,510	223,424	48,562
Community and economic development	264,215	--	--
General government	764,518	305,035	169,813
Debt service	1,589,854	--	--
Capital projects	<u>1,350,909</u>	<u>--</u>	<u>--</u>
Total governmental activities	<u>7,559,141</u>	<u>961,863</u>	<u>1,006,905</u>
Business type activities:			
Water	1,154,290	1,510,529	--
Sewer	2,961,198	2,002,665	--
Sanitation	<u>303,530</u>	<u>321,880</u>	<u>--</u>
Total business type activities	<u>4,419,018</u>	<u>3,835,074</u>	<u>--</u>
Total	<u>\$ 11,978,159</u>	<u>\$ 4,796,937</u>	<u>\$ 1,006,905</u>
General Receipts and Transfers:			
Property tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Debt proceeds			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			

(continued next page)

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
\$ --	\$(1,551,859)	\$ --	\$(1,551,859)
--	39,658	--	39,658
--	(583,524)	--	(583,524)
--	(264,215)	--	(264,215)
321,746	32,076	--	32,076
--	(1,589,854)	--	(1,589,854)
--	(1,350,909)	--	(1,350,909)
<u>321,746</u>	<u>(5,268,627)</u>	<u>--</u>	<u>(5,268,627)</u>
--	--	356,239	356,239
--	--	(958,533)	(958,533)
--	--	<u>18,350</u>	<u>18,350</u>
--	--	(583,944)	(583,944)
<u>\$ 321,746</u>	<u>(5,268,627)</u>	<u>(583,944)</u>	<u>(5,852,571)</u>
	2,319,364	--	2,319,365
	805,605	--	805,604
	128,147	--	128,147
	720,777	--	720,777
	1,761	--	1,761
	762,594	1,992,682	2,755,276
	666,012	1,157	667,169
	720,074	(720,074)	--
	<u>6,124,334</u>	<u>1,273,765</u>	<u>7,398,099</u>
	855,707	689,821	1,545,528
	<u>4,322,523</u>	<u>1,813,329</u>	<u>6,135,852</u>
	<u>\$ 5,178,230</u>	<u>\$ 2,503,150</u>	<u>\$ 7,681,380</u>

CITY OF WASHINGTON, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION - Continued

As of and for the year ended June 30, 2013

		<u>Program Receipts</u>
		Operating Grants, Contributions, and Restricted Interest
	<u>Disbursements</u>	<u>Charges for Service</u>
Cash Basis Net Position		
Restricted:		
Expendable:		
Debt service		
Streets		
Capital projects		
Park purposes		
Library purposes		
Other purposes		
Unrestricted		
Total cash basis net position		

The accompanying notes are an integral part of these statements.

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
	\$ 2,795	\$ --	\$ 2,795
	757,913	--	757,913
	2,950,162	--	2,950,162
	196,793	--	196,793
	431,256	--	431,256
	24,013	--	24,013
	<u>815,298</u>	<u>2,503,150</u>	<u>3,318,448</u>
	<u>\$ 5,178,230</u>	<u>\$ 2,503,150</u>	<u>\$ 7,681,380</u>

CITY OF WASHINGTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u> <u>Road Use</u>
Receipts:		
Property tax	\$ 1,653,203	\$ --
Tax increment financing	--	--
Other city tax	--	--
Licenses and permits	62,061	--
Use of money and property	1,389	--
Intergovernmental	42,545	695,835
Charges for service	181,176	--
Special assessments	--	--
Miscellaneous	456,284	10,265
Total receipts	<u>2,396,658</u>	<u>706,100</u>
Disbursements:		
Operating:		
Public safety	1,660,239	--
Public works	--	753,395
Culture and recreation	800,122	--
Community and economic development	77,080	--
General government	762,643	--
Debt service	--	--
Capital projects	--	--
Total disbursements	<u>3,300,084</u>	<u>753,395</u>
Excess (deficiency) of receipts over (under) disbursements	(903,426)	(47,295)
Other financing sources (uses):		
Sale of capital assets	11,900	--
Debt proceeds	--	--
Operating transfers in	1,327,430	187,975
Operating transfers out	(106,148)	--
Total other financing sources (uses)	<u>1,233,182</u>	<u>187,975</u>
Change in cash balances	329,756	140,680
Cash balances beginning of year	<u>271,487</u>	<u>617,233</u>
Cash balances end of year	<u>\$ 601,243</u>	<u>\$ 757,913</u>

(continued next page)

Exhibit B

<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ 805,605	\$ 612,266	\$ 3,071,074
--	--	128,147	128,147
--	--	774,672	774,672
--	--	--	62,061
185	2	185	1,761
318,746	--	128,910	1,186,036
--	--	--	181,176
26,834	--	--	26,834
<u>641,675</u>	<u>--</u>	<u>406,894</u>	<u>1,515,118</u>
<u>987,440</u>	<u>805,607</u>	<u>2,051,074</u>	<u>6,946,879</u>
--	--	--	1,660,239
--	--	320,501	1,073,896
--	--	55,388	855,510
--	--	187,135	264,215
--	--	1,875	764,518
--	1,525,310	64,544	1,589,854
<u>1,346,581</u>	<u>--</u>	<u>4,328</u>	<u>1,350,909</u>
<u>1,346,581</u>	<u>1,525,310</u>	<u>633,771</u>	<u>7,559,141</u>
(359,141)	(719,703)	1,417,303	(612,262)
--	--	--	11,900
762,594	--	--	762,594
73,021	722,498	43,724	2,354,648
(118,293)	--	(1,459,537)	(1,683,978)
<u>717,322</u>	<u>722,498</u>	<u>(1,415,813)</u>	<u>1,445,164</u>
358,181	2,795	1,490	832,902
<u>2,627,576</u>	<u>--</u>	<u>789,760</u>	<u>4,306,056</u>
<u>\$ 2,985,757</u>	<u>\$ 2,795</u>	<u>\$ 791,250</u>	<u>\$ 5,138,958</u>

CITY OF WASHINGTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS - Continued

As of and for the year ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u>
		<u>Road Use</u>
Cash Basis Fund Balances		
Restricted for:		
Debt Service	\$ --	\$ --
Streets	--	757,913
Capital projects	--	--
Park purposes	--	--
Library purposes	--	--
Other purposes	--	--
Assigned to:		
Capital equipment	--	--
Airport	--	--
Unassigned	<u>601,243</u>	<u>--</u>
Total cash basis fund balances	<u>\$ 601,243</u>	<u>\$ 757,913</u>

The accompanying notes are an integral part of these statements.

Exhibit B

<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ 2,795	\$ --	\$ 2,795
--	--	--	757,913
2,950,162	--	--	2,950,162
--	--	196,793	196,793
--	--	431,256	431,256
--	--	24,013	24,013
35,595	--	--	35,595
--	--	139,188	139,188
<u>--</u>	<u>--</u>	<u>--</u>	<u>601,243</u>
<u>\$ 2,985,757</u>	<u>\$ 2,795</u>	<u>\$ 791,250</u>	<u>\$ 5,138,958</u>

CITY OF WASHINGTON, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
 DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -
 GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2013

Total governmental funds cash balances (page 8)	\$ 5,138,958
---	--------------

Amounts reported for governmental activities in the
 Cash Basis Statement of Activities and Net Position are
 different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.	<u>39,272</u>
--	---------------

Cash basis net position of governmental activities (page 7)	\$ <u>5,178,230</u>
---	---------------------

Change in cash balances (Page 8)	\$ 832,902
----------------------------------	------------

Amounts reported for governmental activities in the Cash Basis
 Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position	<u>22,805</u>
---	---------------

Change in cash basis net position of governmental activities (page 7)	\$ <u>855,707</u>
---	-------------------

The accompanying notes are an integral part of these statements.

CITY OF WASHINGTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2013

	Enterprise	
	Water	Sewer
Operating receipts:		
Charges for service	\$ 1,510,529	\$ 2,002,665
Total operating receipts	<u>1,510,529</u>	<u>2,002,665</u>
Operating disbursements:		
General government	--	--
Business type activities	1,079,342	954,290
Total operating disbursements	<u>1,079,342</u>	<u>954,290</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	431,187	1,048,375
Other financing sources (uses):		
Miscellaneous	5,794	2,715
Debt proceeds	--	1,992,682
Capital projects	(74,948)	(2,006,908)
Operating transfers in	--	--
Operating transfers out	(9,264)	(728,536)
Total other financing sources (uses)	<u>(78,418)</u>	<u>(740,047)</u>
Change in cash balances	352,769	308,328
Cash balances beginning of year	<u>294,974</u>	<u>1,481,585</u>
Cash balances end of year	<u>\$ 647,743</u>	<u>\$ 1,789,913</u>
Cash Basis Fund Balances		
Unrestricted	\$ 647,743	\$ 1,789,913
Total cash basis fund balances	<u>\$ 647,743</u>	<u>\$ 1,789,913</u>

The accompanying notes are an integral part of these statements.

<u>Enterprise</u>		<u>Internal Service</u>
<u>Sanitation Nonmajor</u>	<u>Total</u>	<u>Health Insurance</u>
\$ 321,880	\$ 3,835,074	\$ 1,200
321,880	3,835,074	1,200
--	--	35,151
303,530	2,337,162	--
303,530	2,337,162	35,151
18,350	1,497,912	(33,951)
--	8,509	--
--	1,992,682	--
--	(2,081,856)	--
--	--	72,850
--	(737,800)	(5,720)
--	(818,465)	67,130
18,350	679,447	33,179
34,516	1,811,075	18,721
\$ 52,866	\$ 2,490,522	\$ 51,900
\$ 52,866	\$ 2,490,522	\$ 51,900
\$ 52,866	\$ 2,490,522	\$ 51,900

CITY OF WASHINGTON, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
 DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -
 PROPRIETARY FUNDS

As of and for the year ended June 30, 2013

Total enterprise funds cash balances (page 11)	\$ 2,490,522
--	--------------

Amounts reported for business type activities in the Cash
 Basis Statement of Activities and Net Position are different
 because:

The Internal Service Fund is used by management to charge the
 costs of partial self funding of the City's health insurance
 benefit plan to individual funds. A portion of the cash balance of
 the Internal Service Fund is included in business type activities
 in the Cash Basis Statement of Activities and Net Position.

12,628

Cash basis net position of business type activities (page 6)	<u>\$ 2,503,150</u>
--	---------------------

Change in cash balances (Page 11)	\$ 679,447
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Amounts reported for business type activities in the Cash Basis
 Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the
 costs of partial self funding of the City's health insurance
 benefit plan to individual funds. A portion of the change in the
 cash balance of the Internal Service Fund is reported with business
 type activities in the Cash Basis Statement of Activities and Net
 Position

10,374

Change in cash basis net position of business type activities (page 6)	<u>\$ 689,821</u>
--	-------------------

The accompanying notes are an integral part of these statements.

CITY OF WASHINGTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Washington, Iowa is a political subdivision of the State of Iowa located in Washington County. It was first incorporated in 1864 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture, recreation, community and economic development, and general government services. The City also provides water and sewer utilities, and sanitation services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Washington has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Blended Component Unit

The Washington Free Public Library Foundation, which is a non-profit corporation that is legally separate from the City, is a component unit because its purpose is to provide benefits to the City of Washington's Public Library. The component unit has been blended with the nonmajor governmental funds of the City of Washington.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City, but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Washington County Assessor's Conference Board, Washington County Emergency Management Commission, Washington County Joint E911 Service Board, Washington County Public Safety Committee, and Southeast Iowa Multi-County Solid Waste Agency.

CITY OF WASHINGTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Basis of Presentation

Government-wide Financial Statements

The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

CITY OF WASHINGTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

CITY OF WASHINGTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

CITY OF WASHINGTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$4,883,931 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF WASHINGTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 - BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue capital loan notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal TIF Revenue Capital Loan Note	
	Principal	Interest	Principal	Interest
2014	\$ 605,000	\$ 201,987	\$ 20,000	\$ 5,848
2015	620,000	183,390	21,500	4,988
2016	640,000	163,290	22,000	4,064
2017	660,000	141,390	23,500	3,118
2018	635,000	117,760	24,000	2,107
2019-2023	845,000	404,365	25,000	1,075
2024-2028	1,090,000	208,145	--	--
2029-2033	220,000	10,560	--	--
2034-2038	--	--	--	--
2039-2041	--	--	--	--
	<u>\$ 5,315,000</u>	<u>\$ 1,430,887</u>	<u>\$ 136,000</u>	<u>\$ 21,200</u>

Year Ending June 30,	Revenue Bonds		Total	
	Principal	Interest	Principal	Interest
2014	\$ 162,000	\$ 544,708	\$ 787,000	\$ 752,543
2015	165,000	539,443	806,500	727,821
2016	167,000	534,080	829,000	701,434
2017	169,000	528,653	852,500	673,161
2018	482,000	523,160	1,141,000	643,027
2019-2023	2,658,000	2,370,200	3,528,000	2,775,640
2024-2028	3,119,000	1,909,317	4,209,000	2,117,462
2029-2033	3,660,000	1,368,453	3,880,000	1,379,013
2034-2038	4,293,000	733,891	4,293,000	733,891
2039-2041	1,885,239	93,576	1,885,239	93,576
	<u>\$ 16,760,239</u>	<u>\$ 9,145,481</u>	<u>\$ 22,211,239</u>	<u>\$ 10,597,568</u>

The Code of Iowa requires principal and interest on general obligation bonds to be paid from the Debt Service Fund.

CITY OF WASHINGTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 - BONDS AND NOTES PAYABLE - Continued

Urban Renewal Tax Increment Financing Revenue Capital Loan Notes

The City issued urban renewal tax increment financing (TIF) revenue notes for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The notes are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100% of the debt service requirements over the life of the notes. The proceeds of the Urban Renewal Tax Increment Financing shall be expended only for purposes that are consistent with the plans of the City's urban renewal area. The notes are not general obligations of the City; however, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the notes is \$157,200, payable through 2019. For the current year, principal and interest paid and total TIF receipts were \$58,492 and \$128,147, respectively.

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay two revenue bond issues. The bonds were issued between September, 2011 and April, 2012. Proceeds from the bonds provided financing for the construction of sewer system projects and construction of a new waste water treatment plant. The bonds are payable solely from sewer customer net receipts and are payable through 2041. Annual principal and interest on the bonds are expected to require less than 66% of net receipts. The total principal and interest remaining to be paid on the bonds is \$25,905,720. For the current year, principal and interest paid and total customer net receipts were \$684,297 and \$1,048,375, respectively.

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sewer user charges must be established at a level which produces and maintains net revenues at a level not less than 110% of principal and interest requirements due in the same year.

NOTE 4 - INDUSTRIAL DEVELOPMENT REVENUE BOND

The City has issued a \$2,400,000 elderly housing revenue bond under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

CITY OF WASHINGTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2013, primarily relating to the General Fund, is \$168,164, based on rates of pay in effect at June 30, 2013.

NOTE 6 - PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% (5.95% effective July 1, 2013) of their annual covered salary and the City is required to contribute 8.67% (8.93% effective July 1, 2013) of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$224,017, \$208,054, and \$182,755, respectively, equal to the required contribution for each year.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description: The City operates a single-employer health benefit plan which provides medical, prescription drug, dental, and vision benefits for employees, retirees, and their spouses. There are 48 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical, prescription drug, dental, and vision benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy: The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$399 for single coverage and \$1,223 for family coverage. For the year ended June 30, 2013, the City contributed \$351,287 and plan members eligible for benefits contributed \$53,811 to the plan.

CITY OF WASHINGTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 8 - RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2013 were \$111,577.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

CITY OF WASHINGTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 8 - RISK MANAGEMENT - Continued

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. After the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing members and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one year period following withdrawal.

The City also carries commercial insurance purchased from the other insurers for coverage associated with workers' compensation and various types of liability insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF WASHINGTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue	
	Park	\$ 2,000
	Liability Insurance	53,895
	Local Option Sales Tax	661,028
	Employee Benefits	507,460
	Urban Renewal TIF	67,327
	Capital Projects	30,000
	Internal Service:	
	Health Insurance	5,720
		<u>1,327,430</u>
Special Revenue:	General	50,000
Road Use Tax	Special Revenue:	
	Employee Benefits	49,682
	Capital Projects	88,293
		<u>187,975</u>
Special Revenue:		
Urban Renewal TIF	General	5,052
Special Revenue:		
Housing Rehabilitation	General	38,332
Debt Service	General	2,624
	Enterprise:	
	Sewer	719,874
		<u>722,498</u>
Capital Projects	General	10,000
	Special Revenue:	
	Local Option Sales Tax	59,749
	Park	3,272
		<u>73,021</u>
Special Revenue:	General	140
Tree	Enterprise:	
	Sewer	200
		<u>340</u>
Internal Service:		
Health Insurance	Special Revenue:	
	Employee Benefits	55,124
	Enterprise:	
	Sewer	8,462
	Water	9,264
		<u>72,850</u>
		<u>\$ 2,427,498</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF WASHINGTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 10 - RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$4,434 during the year ended June 30, 2013.

NOTE 11 - COMMITMENTS

In the normal course of business, the City has various outstanding commitments that are not reflected in the accompanying financial statements. The commitments of the City are as follows:

Waste water treatment plant	\$ 392,500
West side sanitary sewer	268,000
Street sealcoating program	94,500

NOTE 12 - OPERATING LEASES - LESSOR

The City leases farm land around the airport to two individuals. The lease terms are on a year-to-year basis. Rental income for the year ended June 30, 2013 totaled \$57,180.

The City leases hangar space to individuals on a month-to-month basis. Rental income for the year ended June 30, 2013 totaled \$36,511.

NOTE 13 - CAPITAL LEASE

The City leases a sewer camera. The lease has a term of three years expiring December, 2014, with the option to purchase for \$1 at the end of the term. Future minimum lease payments are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2014	\$ 35,577
2015	35,577

NOTE 14 - SUBSEQUENT EVENT

The City has evaluated all subsequent events through January 6, 2014, the date the financial statements were available to be issued.

* * *

OTHER INFORMATION

CITY OF WASHINGTON, IOWA
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETRY FUNDS

Year ended June 30, 2013

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds not Required to be Budgeted</u>
Receipts:			
Property tax	\$ 3,071,074	\$ --	\$ --
Tax increment financing	128,147	--	--
Other city tax	774,672	--	--
Licenses and permits	62,061	--	--
Use of money and property	1,761	--	--
Intergovernmental	1,186,036	--	--
Charges for service	181,176	3,836,274	1,200
Special assessments	26,834	--	--
Miscellaneous	<u>1,515,118</u>	<u>8,509</u>	<u>1,913</u>
Total receipts	<u>6,946,879</u>	<u>3,844,783</u>	<u>3,113</u>
Disbursements:			
Public safety	1,660,239	--	--
Public works	1,073,896	--	--
Culture and recreation	855,510	--	14,074
Community and economic development	264,215	--	--
General government	764,518	35,151	35,151
Debt service	1,589,854	--	--
Capital projects	1,350,909	--	--
Business type activities	--	4,419,018	--
Total disbursements	<u>7,559,141</u>	<u>4,454,169</u>	<u>49,225</u>
Excess (deficiency) of receipts over (under) disbursements	(612,262)	(609,386)	(46,112)
Other financing sources (uses), net	<u>1,445,164</u>	<u>1,322,012</u>	<u>67,130</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	832,902	712,626	21,018
Balances beginning of year	<u>4,306,056</u>	<u>1,829,796</u>	<u>205,806</u>
Balances end of year	<u>\$ 5,138,958</u>	<u>\$ 2,542,422</u>	<u>\$ 226,824</u>

See accompanying independent auditor's report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 3,071,074	\$ 3,151,108	\$ 3,151,108	\$ (80,034)
128,147	137,472	137,694	(9,547)
774,672	741,786	741,786	32,886
62,061	52,150	52,150	9,911
1,761	99,876	179,876	(178,115)
1,186,036	1,985,779	2,164,207	(978,171)
4,016,250	4,142,851	4,142,851	(126,601)
26,834	13,000	13,000	13,834
<u>1,521,714</u>	<u>130,081</u>	<u>160,876</u>	<u>1,360,838</u>
<u>10,788,549</u>	<u>10,454,103</u>	<u>10,743,548</u>	<u>45,001</u>
1,660,239	1,574,117	1,700,595	40,356
1,073,896	1,499,606	1,499,606	425,710
841,436	881,028	920,823	79,387
264,215	53,992	295,147	30,932
764,518	725,097	767,914	3,396
1,589,854	1,668,688	1,668,938	79,084
3,432,765	4,730,627	4,730,627	1,297,862
<u>2,337,162</u>	<u>5,978,743</u>	<u>6,100,106</u>	<u>3,762,944</u>
<u>11,964,085</u>	<u>17,111,898</u>	<u>17,683,756</u>	<u>5,719,671</u>
(1,175,536)	(6,657,795)	(6,940,208)	5,764,672
<u>2,700,046</u>	<u>4,755,000</u>	<u>4,755,000</u>	<u>(2,054,954)</u>
1,524,510	(1,902,795)	(2,185,208)	3,709,718
<u>5,930,046</u>	<u>4,654,758</u>	<u>4,654,758</u>	<u>1,275,288</u>
<u>\$ 7,454,556</u>	<u>\$ 2,751,963</u>	<u>\$ 2,469,550</u>	<u>\$ 4,985,006</u>

CITY OF WASHINGTON, IOWA
NOTES TO OTHER INFORMATION -
BUDGETARY REPORTING

June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except for its blended component unit and Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$571,858. The budget amendments are reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

CITY OF WASHINGTON, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NON-MAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2013

	Special Revenue				
	Airport	Employee Benefits	Liability Insurance	Option Sales Tax	Urban Renewal TIF
Receipts:					
Property tax	\$ --	\$612,266	\$ --	\$ --	\$ --
Tax increment financing	--	--	--	--	128,147
Other City tax	--	--	53,895	720,777	--
Use of money and property	--	--	--	--	--
Intergovernmental	1,265	--	--	--	--
Miscellaneous	362,819	--	--	--	--
Total receipts	364,084	612,266	53,895	720,777	128,147
Disbursements:					
Operating:					
Public works	320,501	--	--	--	--
Culture and recreation	--	--	--	--	--
Community and economic development	--	--	--	--	--
General government	--	--	--	--	--
Debt service	--	--	--	--	64,544
Capital projects	--	--	--	--	1,328
Total disbursements	320,501	--	--	--	65,872
Excess (deficiency) of receipts over (under) disbursements	43,583	612,266	53,895	720,777	62,275
Other financing sources (uses):					
Operating transfers in	--	--	--	--	5,052
Operating transfers out	--	(612,266)	(53,895)	(720,777)	(67,327)
Total other financing sources (uses)	--	(612,266)	(53,895)	(720,777)	(62,275)
Change in cash balances	43,583	--	--	--	--
Cash balances beginning of year	95,605	--	--	--	--
Cash balances end of year	\$ 139,188	\$ --	\$ --	\$ --	\$ --

(continued next page)

Schedule 1

Special Revenue					Component Unit	
Housing Rehabilitation	Dog Park	Tree	Park	Library Trust	Library Foundation	Total
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 612,266
--	--	--	--	--	--	128,147
--	--	--	--	--	--	774,672
--	--	--	3	182	--	185
127,645	--	--	--	--	--	128,910
--	591	11,151	8,295	22,125	1,913	406,894
<u>127,645</u>	<u>591</u>	<u>11,151</u>	<u>8,298</u>	<u>22,307</u>	<u>1,913</u>	<u>2,051,074</u>
--	--	--	--	--	--	320,501
--	--	--	11,770	29,544	14,074	55,388
177,838	--	9,297	--	--	--	187,135
--	1,875	--	--	--	--	1,875
--	--	--	--	--	--	64,544
--	--	--	3,000	--	--	4,328
<u>177,838</u>	<u>1,875</u>	<u>9,297</u>	<u>14,770</u>	<u>29,544</u>	<u>14,074</u>	<u>633,771</u>
(50,193)	(1,284)	1,854	(6,472)	(7,237)	(12,161)	1,417,303
38,332	--	340	--	--	--	43,724
<u>--</u>	<u>--</u>	<u>--</u>	<u>(5,272)</u>	<u>--</u>	<u>--</u>	<u>(1,459,537)</u>
<u>38,332</u>	<u>--</u>	<u>340</u>	<u>(5,272)</u>	<u>--</u>	<u>--</u>	<u>(1,415,813)</u>
(11,861)	(1,284)	2,194	(11,744)	(7,237)	(12,161)	1,490
<u>22,968</u>	<u>6,996</u>	<u>5,000</u>	<u>208,537</u>	<u>263,569</u>	<u>187,085</u>	<u>789,760</u>
<u>\$ 11,107</u>	<u>\$ 5,712</u>	<u>\$ 7,194</u>	<u>\$ 196,793</u>	<u>\$ 256,332</u>	<u>\$ 174,924</u>	<u>\$ 791,250</u>

CITY OF WASHINGTON, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NON-MAJOR GOVERNMENTAL FUNDS - Continued

As of and for the year ended June 30, 2013

	Special Revenue				
	<u>Airport</u>	<u>Employee Benefits</u>	<u>Liability Insurance</u>	<u>Option Sales Tax</u>	<u>Urban Renewal TIF</u>
Cash Basis Fund Balances					
Restricted for:					
Park purposes	\$ --	\$ --	\$ --	\$ --	\$ --
Library purposes	--	--	--	--	--
Other purposes	--	--	--	--	--
Assigned to:					
Airport	<u>139,188</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total cash basis fund balances	<u>\$ 139,188</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

See accompanying independent auditor's report.

Special Revenue					Component Unit	
<u>Housing Rehabilitation</u>	<u>Dog Park</u>	<u>Tree</u>	<u>Park</u>	<u>Library Trust</u>	<u>Library Foundation</u>	<u>Total</u>
\$ --	\$ --	\$ --	\$ 196,793	\$ --	\$ --	\$ 196,793
--	--	--	--	256,332	174,924	431,256
11,107	5,712	7,194	--	--	--	24,013
--	--	--	--	--	--	139,188
<u>\$ 11,107</u>	<u>\$ 5,712</u>	<u>\$ 7,194</u>	<u>\$ 196,793</u>	<u>\$ 256,332</u>	<u>\$ 174,924</u>	<u>\$ 791,250</u>

CITY OF WASHINGTON, IOWA
SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2013

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds:			
Capital loan note	06/17/09	1.25-4.80%	\$ 3,500,000
Capital loan note	06/18/08	2.50-4.00%	4,355,000
Capital loan note	07/02/12	1.50%	250,000
Total General Obligation Notes and Bonds			
Revenue Bonds:			
Sewer revenue	09/21/11	3.00%	6,316,000
Sewer revenue	04/04/12	3.00%	3,000,000
Total Revenue Bonds			
Urban Renewal TIF Revenue Notes:			
Urban Renewal Series 2004	01/12/04	3.70%	190,000
Urban Renewal Series 2006	09/15/06	4.30-5.38%	280,000
Total Urban Renewal TIF Revenue Notes			

See accompanying independent auditor's report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 2,935,000	\$ --	\$ 130,000	\$ 2,805,000	\$ 115,675	\$ 9,231
2,715,000	--	405,000	2,310,000	100,537	7,124
<u>--</u>	<u>250,000</u>	<u>50,000</u>	<u>200,000</u>	<u>4,222</u>	<u>247</u>
<u>\$ 5,650,000</u>	<u>\$ 250,000</u>	<u>\$ 585,000</u>	<u>\$ 5,315,000</u>	<u>\$ 220,434</u>	<u>\$ 16,602</u>
\$12,176,797	\$1,992,682	\$ 100,000	\$ 14,069,479	\$ 440,220	\$ 37,583
<u>2,239,166</u>	<u>512,594</u>	<u>61,000</u>	<u>2,690,760</u>	<u>83,077</u>	<u>7,188</u>
<u>\$14,415,963</u>	<u>\$2,505,276</u>	<u>\$ 161,000</u>	<u>\$ 16,760,239</u>	<u>\$ 523,297</u>	<u>\$ 44,771</u>
\$ 30,000	\$ --	\$ 30,000	\$ --	\$ 2,827	\$ --
<u>155,000</u>	<u>--</u>	<u>19,000</u>	<u>136,000</u>	<u>6,665</u>	<u>481</u>
<u>\$ 185,000</u>	<u>\$ --</u>	<u>\$ 49,000</u>	<u>\$ 136,000</u>	<u>\$ 9,492</u>	<u>\$ 481</u>

CITY OF WASHINGTON, IOWA
BOND AND NOTE MATURITIES
June 30, 2013

Year ending June 30,	General Obligation Bonds			
	Capital Loan Note		Capital Loan Note	
	Issued June 18, 2008		Issued June 17, 2009	
	Interest Rates	Amount	Interest Rates	Amount
2014	3.45%	\$ 425,000	2.45%	\$ 130,000
2015	3.60%	440,000	2.70%	130,000
2016	3.75%	460,000	3.00%	130,000
2017	3.90%	480,000	3.20%	130,000
2018	4.00%	505,000	3.40%	130,000
2019			3.60%	155,000
2020			3.80%	160,000
2021			4.00%	170,000
2022			4.10%	175,000
2023			4.20%	185,000
2024			4.30%	195,000
2025			4.40%	205,000
2026			4.50%	215,000
2027			4.60%	230,000
2028			4.70%	245,000
2029			4.80%	220,000
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
		<u>\$ 2,310,000</u>		<u>\$ 2,805,000</u>
Year ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Notes Series 2006			
	Issued September 15, 2006			
	Interest Rates	Amount		
2014	4.30%	\$ 20,000		
2015	4.30%	21,500		
2016	4.30%	22,000		
2017	4.30%	23,500		
2018	4.30%	24,000		
2019	4.30%	25,000		
				<u>\$ 136,000</u>

See accompanying independent auditor's report.

General Obligation Bonds			Revenue Notes				
Capital Loan Note			Series 2011		Series 2012		
Issued July 2, 2012			Issued September 21, 2011		Issued April 4, 2012		
Interest Rates	Amount	Total	Interest Rates	Amount	Interest Rate	Amount	Total
1.50%	\$ 50,000	\$ 605,000	3.00%	\$ 100,000	3.00%	\$ 62,000	\$ 162,000
1.50%	50,000	620,000	3.00%	100,000	3.00%	65,000	165,000
1.50%	50,000	640,000	3.00%	100,000	3.00%	67,000	167,000
1.50%	50,000	660,000	3.00%	100,000	3.00%	69,000	169,000
		635,000	3.00%	411,000	3.00%	71,000	482,000
		155,000	3.00%	425,000	3.00%	73,000	498,000
		160,000	3.00%	439,000	3.00%	76,000	515,000
		170,000	3.00%	453,000	3.00%	78,000	531,000
		175,000	3.00%	467,000	3.00%	81,000	548,000
		185,000	3.00%	483,000	3.00%	83,000	566,000
		195,000	3.00%	498,000	3.00%	86,000	584,000
		205,000	3.00%	515,000	3.00%	89,000	604,000
		215,000	3.00%	531,000	3.00%	92,000	623,000
		230,000	3.00%	549,000	3.00%	95,000	644,000
		245,000	3.00%	566,000	3.00%	98,000	664,000
		220,000	3.00%	585,000	3.00%	101,000	686,000
			3.00%	604,000	3.00%	104,000	708,000
			3.00%	623,000	3.00%	108,000	731,000
			3.00%	644,000	3.00%	111,000	755,000
			3.00%	665,000	3.00%	115,000	780,000
			3.00%	686,000	3.00%	118,000	804,000
			3.00%	709,000	3.00%	122,000	831,000
			3.00%	732,000	3.00%	126,000	858,000
			3.00%	755,000	3.00%	130,000	885,000
			3.00%	780,000	3.00%	135,000	915,000
			3.00%	805,000	3.00%	139,000	944,000
			3.00%	744,479	3.00%	144,000	888,479
				--		52,760	52,760
	<u>\$ 200,000</u>	<u>\$5,315,000</u>		<u>\$ 14,069,479</u>		<u>\$ 2,690,760</u>	<u>\$ 16,760,239</u>

CITY OF WASHINGTON, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the Last Ten Years

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Receipts:				
Property tax	\$ 3,071,074	\$ 2,855,973	\$ 2,629,923	\$ 2,533,258
Tax increment financing	128,147	412,169	311,511	336,447
Other city tax	774,672	1,191,364	1,096,587	670,139
Use of money and property	62,061	133,522	120,811	89,186
Licenses and permits	1,761	102,917	107,011	82,522
Intergovernmental	1,186,036	2,353,434	1,287,291	1,460,773
Charges for service	181,176	196,083	201,540	153,610
Special assessments	26,834	14,926	13,580	12,221
Miscellaneous	<u>1,515,118</u>	<u>1,011,369</u>	<u>927,024</u>	<u>1,825,514</u>
Total	<u>\$ 6,946,879</u>	<u>\$ 8,271,757</u>	<u>\$ 6,695,278</u>	<u>\$ 7,163,670</u>
Disbursements:				
Operating:				
Public safety	\$ 1,660,239	\$ 1,635,509	\$ 1,644,493	\$ 1,604,339
Public works	1,073,896	1,418,092	1,191,871	1,076,942
Culture and recreation	855,510	833,069	932,355	824,578
Community and economic development	264,215	66,250	66,082	55,364
General government	764,518	978,299	946,185	977,718
Debt service	1,589,854	1,021,522	1,166,467	1,040,256
Capital projects	<u>1,350,909</u>	<u>1,651,932</u>	<u>1,546,539</u>	<u>3,415,095</u>
Total	<u>\$ 7,559,141</u>	<u>\$ 7,604,673</u>	<u>\$ 7,493,992</u>	<u>\$ 8,994,292</u>

See accompanying independent auditor's report.

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 2,405,145	\$ 2,350,999	\$ 2,365,634	\$ 2,345,992	\$ 2,367,998	\$ 2,338,456
209,724	104,729	113,794	101,008	94,486	74,052
612,723	709,116	671,072	455,213	545,406	388,387
140,156	134,280	195,990	69,611	53,880	45,700
130,196	109,264	119,148	154,770	99,077	62,260
1,181,813	1,220,791	1,165,904	855,371	835,138	867,115
616,050	518,170	399,797	218,106	207,144	210,226
7,009	12,559	14,963	32,849	17,801	24,600
<u>2,822,372</u>	<u>704,243</u>	<u>705,606</u>	<u>113,484</u>	<u>205,480</u>	<u>118,839</u>
<u>\$ 8,125,188</u>	<u>\$ 5,864,151</u>	<u>\$ 5,751,908</u>	<u>\$ 4,346,404</u>	<u>\$ 4,426,410</u>	<u>\$ 4,129,635</u>
\$ 1,822,455	\$1 1,503,628	\$ 1,355,269	\$ 1,561,645	\$ 1,425,479	\$ 1,128,631
1,009,014	1,544,143	1,405,445	691,540	559,650	377,117
936,866	913,776	819,720	687,928	620,817	670,587
63,371	98,868	342,321	125,114	--	32,679
1,001,763	878,786	919,301	846,315	736,814	569,067
949,377	909,786	941,246	918,085	923,092	921,882
<u>6,275,982</u>	<u>644,339</u>	<u>248,737</u>	<u>291,636</u>	<u>234,494</u>	<u>1,628,901</u>
<u>\$ 12,058,828</u>	<u>\$ 6,493,326</u>	<u>\$ 6,032,039</u>	<u>\$ 5,122,263</u>	<u>\$ 4,500,346</u>	<u>\$ 5,328,864</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Washington, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 6, 2014. Our report expressed a qualified opinion and unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Washington's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Washington's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Washington's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be significant deficiencies.

To the Honorable Mayor and
Members of the City Council

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Washington's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item 13-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Washington's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to Findings

The City of Washington's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Washington's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Comenich, Ben, Kuhn & W.P.C.

Atlantic, Iowa
January 6, 2014

CITY OF WASHINGTON, IOWA

Schedule of Findings

Year ended June 30, 2013

PART I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

13-I-A Segregation of Duties: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. However, because there are a limited number of people that have the primary responsibility for the accounting and financial duties, those aspects of internal accounting control which rely upon an adequate segregation of duties are missing in the City.

Recommendation: We recommend that the City review its control procedures to obtain the maximum internal control possible under the circumstances and the Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: We will continue work in this area to increase segregation of duties.

Conclusion: Response accepted.

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CITY OF WASHINGTON, IOWA

Schedule of Findings

Year ended June 30, 2013

PART II: Other Findings Related to Statutory Reporting

- 13-II-A Certified Budget: Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted.
- 13-II-B Questionable Disbursements: During the audit, we did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 13-II-C Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.
- 13-II-D Business Transactions: Business transactions between the City and City officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Roe Heating and Hardware Mike Roe is the owner of the business and chairperson of the Airport Commission	Miscellaneous items	\$ <u>3,711</u>
Sign Design Tom Wide is the owner of the business and the Fire Chief	Miscellaneous items	\$ <u>725</u>

In accordance with Chapter 362.52(3)(j) of the Code of Iowa, the transactions with the Fire Chief do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year. The transactions with the Chairperson of the Airport Commission exceed \$1,500; however, purchases from local businesses are necessary for the operation of the City of Washington, Iowa. The Council considered and approved the purchases from this local merchant.

Recommendation: The Council should continue to monitor purchases from Council member owned businesses and assure that conflicts of interest are limited to required transactions. Reasons for and approval of such transactions should be documented.

Response: The Council will continue to monitor and document reasons for and approval of transactions that appear to represent any conflict of interest.

Conclusion: Response accepted.

CITY OF WASHINGTON, IOWA

Schedule of Findings

Year ended June 30, 2013

- 13-II-E Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 13-II-F Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.
- 13-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa.
- 13-II-H Revenue Bonds and Notes: No instances of non-compliance with the revenue bond and note resolutions were noted.
- 13-II-I Urban Renew Annual Report: The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

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